

PUBLIC DISCLOSURE

October 30, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Village Bank
Certificate Number 34219**

**294 East Tabernacle
St. George, Utah 84770**

**Federal Deposit Insurance Corporation
25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with a safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **The Village Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **October 30, 2008**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The bank's CRA performance depicts a satisfactory practice of providing for the credit needs of its assessment area. This rating is supported by the following:

- The average net loan-to-deposit (ANLTD) ratio is reasonable, given the institution's size, competitive forces, financial condition, and assessment area credit needs.
- A substantial majority of the bank's loan originations are within its assessment area.
- An analysis of loan originations reveals a reasonable penetration of lending to businesses of different sizes.
- The geographic distribution of loans reflects a reasonable dispersion of loans throughout the assessment area.
- The bank has not received any complaints relating to its CRA performance.

In addition, no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

SCOPE OF THE EVALUATION

This evaluation utilized Small Bank CRA examination procedures. To assess the institution's performance, the following five lending performance criteria are analyzed: the bank's quarterly ANLTD ratio; the level of lending within its assessment area; the distribution of lending to businesses of different sizes; the geographic distribution of loans; and the bank's response to any consumer complaints regarding its CRA performance.

This evaluation reflects The Village Bank's CRA performance since the previous CRA Performance Evaluation, dated November 1, 2003. The evaluation was conducted from the bank's main office in St. George, Utah. Examiners evaluated the bank's CRA performance in the context of the following:

- The current economic environment;
- Demographic characteristics of its assessment area;
- Lending opportunities within its assessment area;
- Bank financial resources and constraints;
- Bank product offerings and business strategy;
- Information derived from community contacts; and the
- Performance of similarly situated institutions, if any.

The evaluation focused on the institution's commercial lending activity, particularly to small businesses. To evaluate the institution's lending performance, examiners reviewed commercial purpose loans originated between April 30, 2008, and October 30, 2008. This period comprises the "review period" for the corresponding loan review. Several performance criteria utilized a sample of commercial loans for review. This sample consisted of 30 loans totaling \$2.4 million. The associated credit files for the selected loans were reviewed to complete the evaluation.

Residential real estate lending was not considered for review as the bank originates a minimal number and volume of these loans. The bank's residential real estate originations were 16 loans totaling \$2.6 million in 2006, 13 loans totaling \$3.5 million in 2007, and 9 loans totaling \$2.8 million in the first 6 months of 2008.

Comparative Lending Data

D&B data and the 2000 U.S. Census information are presented for comparison purposes. D&B data is based on the geographic location, using 2000 U.S. Census boundaries, of the total number of businesses within the assessment area and the reported annual gross sales of those businesses.

The census information is based on the geographic location using 2000 U.S. Census boundaries, of the total number of housing units and families and the gross annual income levels of families within the assessment area.

DESCRIPTION OF INSTITUTION

The Village Bank, located in St. George, Utah, is a commercial bank with gross loans of \$211 million and total assets of \$272 million as of June 30, 2008.

The bank is a full-service community bank that offers a variety of deposit and loan products to fulfill the needs of consumers, farms, ranches, and businesses in its community. Deposit products offered include personal and business checking and savings products, interest-bearing negotiable order of withdrawal (NOW) accounts, money market accounts, and time deposits. Additional products offered include debit cards, credit cards, overdraft protection, wire transfers, and other traditional bank services. The bank originates consumer, residential real estate, construction, agriculture, and commercial loans for a variety of purposes. The bank also offers loans guaranteed or insured by the Small Business Administration. Open-end or revolving products include credit cards, overdraft protection loans, home equity loans, and commercial and agriculture lines of credit. The bank also offers home construction loans and “bridge” loans. Additionally, multi-family residential real estate loans, such as apartment and condominium loans, are available.

The bank operates from the following four locations:

Location:	Banking Hours		
	Day	Lobby	Drive-Thru
Main Office 294 East Tabernacle St. George, Utah (middle-income census tract)	Mon – Fri	9:00 am to 5:00 pm	8:00 am to 6:00 pm
	Saturday	Closed	8:00 am to 1:00 pm
Sunset Office 1091 N. Bluff St. St. George, Utah (moderate-income census tract)	Mon – Fri	9:00 am to 5:00 pm	8:00 am to 6:00 pm
	Saturday	Closed	8:00 am to 1:00 pm
River Road Office 1224 S. River Road St. George, Utah (middle income census tract)	Mon – Fri	9:00 am to 5:00 pm	8:00 am to 6:00 pm
	Saturday	Closed	8:00 am to 1:00 pm
Cotton Mill Office 710 W. Telegraph Washington, Utah (middle-income census tract)	Mon – Fri	9:00 am to 5:00 pm	7:00 am to 7:00 pm
	Saturday	Closed	8:00 am to 1:00 pm

Source: Examiner prepared table

Additionally, the bank operates four automated teller machines (ATMs), one at each bank office. Each ATM is available 24-hours a day. ATMs allow customers to withdraw cash, conduct account balance inquiries, and accept deposits.

Access to other banking services is available through online banking at the bank's website, www.thevillagebank.com, and through telephone banking. The bank's internet system allows customers to review accounts, transfer funds between VB accounts, and pay bills. Online banking is accessible 24-hours a day. Telephone banking is available to make balance inquiries, transfer funds to other accounts, or make payments on loans owed to the bank. Telephone banking is available 24-hours a day.

The bank's lending primarily focuses on commercial lending to local businesses. The composition of the bank's loan portfolio is depicted in Table 1. Information from the bank's Report of Condition and Income (CALL Report) for June 30, 2008, was used for the table. As indicated, commercial credit (construction/land development/other land loans; non-farm nonresidential; and commercial and industrial) comprises 63 percent of outstanding loans. Residential real estate lending (first and junior closed-end loans) comprises 6 percent of total loans. Consumer-purpose loans comprise 3 percent of total loans and include vehicle-secured plans, other secured and unsecured personal loans, and overdraft protection lines. Agriculture lending has been nominal.

Table 1 – Loan Type	Dollar Amount (in 000s)	Percent of Total Loans
1-4 family residential construction	18,341	8.7
Other construction, land development, and other land loans	74,391	35.3
Secured by farmland (including farm residential and other improvements)	3,989	1.9
Revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit	8,391	4.0
Closed-end loans secured by first liens on 1-4 family residential properties	8,024	3.8
Closed-end loans secured by junior liens on 1-4 family residential properties	4,109	2.0
Secured by multifamily (5 or more) residential properties	4,134	2.0
Secured by owner-occupied non-farm nonresidential properties	21,918	10.4
Secured by other non-farm nonresidential properties	20,056	9.5
Loans to finance agriculture production and other loans to farmers	186	nominal
TOTAL REAL ESTATE	163,539	77.6
Commercial and industrial loans	37,461	17.8
Revolving credit plan loans to individuals for household, family, and other personal expenditures (i.e. consumer loans, credit cards, other revolving credit)	1,678	0.8
Other consumer loans (includes single payment, installment, and all student loans)	4,540	2.2
Obligations of states and political subdivisions in the U.S.	3,903	1.8
Other loans	105	nominal
Unearned income on loans reflected above	(543)	(0.2)
TOTAL LOANS	210,683	100.0

Source: CALL Report for June 30, 2008

The bank is wholly-owned by Village Bancorp. This entity is a one-bank holding company. No legal or financial impediments exist, which would prohibit the bank from meeting the credit needs of the area.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires financial institutions to delineate one or more assessment areas within which regulatory agencies evaluate the institution's record of helping to meet the credit needs of its community and surrounding area. An assessment area must consist generally of one or more metropolitan areas or one or more contiguous political subdivisions, such as counties, cities, or towns, in which the bank has its main office, branches, and deposit-taking remote service facilities. For the purposes and requirements of CRA, the bank has one assessment area. The bank has defined its assessment area as Washington County, Utah. This county is also designated as the St. George Metropolitan Statistical Area (MSA). This MSA is located in the southwest corner of Utah, bordering the states of Arizona and Nevada. The bank's main office is located centrally in the City of St. George. St. George is approximately 55 miles southwest of Cedar City, Utah, and 120 miles northeast of Las Vegas, Nevada.

The bank's assessment area includes a total of 18 census tracts (CTs). Of these tracts, 2 are designated as moderate-income, 13 as middle-income, and 3 as upper-income geographies. There are no low-income CTs in the assessment area. Additional breakdown of CT income and population is included in Table 2.

Demographics

Table 2 provides information for demographic and economic data for the bank's assessment area. The 2000 U.S. Census data presented in the table indicates that the majority of the area's population resides in middle-income CTs. As previously stated, there are no low-income defined CTs. However, 16 and 20 percent of the assessment area's family are low- and moderate-income, respectively. Additionally, 10 percent of households in the assessment area are below the poverty level. According to information obtained from D&B, there are 11,719 businesses operating in the bank's assessment area. Most of these businesses, or approximately 73 percent, are located in the middle-income CTs.

Table 2 – Demographic and Economic Information for Assessment Area

Demographic Characteristics	Total #	% of # Low	% of # Moderate	% of # Middle	% of # Upper
Geographies (Census Tracts)	18	0.0	11.1	72.2	16.7
Population by Geography	90,354	0.0	10.4	72.4	17.2
Owner-Occupied Households by Geography	36,478	0.0	9.3	71.3	19.4
Families by Geography	23,639	0.0	10.4	71.8	17.8
Households by Geography	29,970	0.0	11.2	72.8	16.0
Families by Income Level	23,639	16.3	19.6	25.7	38.4
Households by Income Level	29,970	20.7	18.9	23.7	36.7
Distribution of Low and Moderate Income Families through out Assessment Area by Geography	8,497	0.0	15.2	75.6	9.2
Distribution of Housing Units by Geography	36,478	0.0	10.9	74.5	14.6
Businesses by Geography for 2007 **	11,719	0.0	10.6	73.4	16.0
2000 Median Family Income	\$ 41,000	Median Housing Value			\$ 131,931
HUD Adjusted MFI for 2006	\$ 46,900	Unemployment Rate (St. George MSA)			3.8 %
		Households Below Poverty Level			9.7 %

Sources: 2000 U.S. Census. **2007 D&B

According to the 1990 U.S. Census data, the population of the bank's assessment area was 48,560. The 2000 U.S. Census data confirms the population of this area as 90,354. This area has experienced significant population growth based on the U.S. Census information. City and community populations and their corresponding growth are detailed below. These figures show a clear in-migration of residents to the assessment area.

Area/Town	1990 Census	2000 Census	% Change
St. George	28,502	49,663	74.2 % increase
Washington	4,198	8,186	95.0 % increase
Hurricane	3,915	8,250	110.7 % increase
Santa Clara	2,322	4,630	99.4 % increase
La Verkin	1,771	3,392	91.5 % increase
Enterprise	936	1,285	37.3 % increase

Economy

The economy of the assessment area is primarily commercial-based. The county is highly dependent on tourism, recreation, and its desirability as a retirement spot. These activities have fueled growth in the construction, service, and trade industries. According to business information for the St. George area, the city has become popular for people retiring or desiring to move away from more expensive cities, such as those in California, Nevada, and Arizona. This in-migration, as detailed above, contributes to increased demand for all commercial, healthcare, and educational products and services. According to information gathered by D&B as of June 30, 2007, there are 1,523 construction, 3,827 service, and 1,394 retail trade businesses located within the assessment area. These types of businesses respectively represent 13 percent, 32

percent, and 12 percent of the businesses in the area. Other commercial entities include 11 percent finance/insurance/real estate, 4 percent transportation/communication, 3 percent manufacturing, and 20 percent of non-classifiable establishments. The Utah Department of Workforce Services indicates the largest employers in the assessment area, based on 2006 data, includes:

- ◆ Intermountain Health Care
- ◆ Wal-Mart Stores
- ◆ Dixie State College
- ◆ Skywest Airlines
- ◆ Lin's Supermarket
- ◆ Sunroc Corporation

As of June 30, 2008, Washington County's unemployment rate was 4 percent. Although this is higher than the State of Utah's 3 percent, it is significantly lower than the national unemployment rate of 5 percent for the same period.

Competitive Environment

There are a total of 11 banks with offices or branches located in the bank's assessment area. The bank is one of four with headquarters in the assessment area. The remaining banks have only branch offices in the assessment area. Table 3 details the banks with offices in the assessment area, and their corresponding deposits and deposit market share in the assessment area.

Table 3 – Competitive Environment			
Bank Name	No. of Offices	Deposits (\$000)	Market Share %
Zions First National Bank	10	484,758	31.0
Wells Fargo Bank, NA	8	354,208	22.6
The Village Bank (headquartered in St. George)	4	216,926	13.9
Sunfirst Bank (headquartered in St. George)	3	192,268	12.3
State Bank of Southern Utah	6	124,292	8.0
Washington Mutual Bank	1	53,664	3.4
US Bank National Association	3	52,455	3.4
Heritage Bank (headquartered in St. George)	1	42,782	2.7
American West Bank	1	20,876	1.3
Barnes Banking Co.	1	12,030	0.8
Town & Country Bank (headquartered in St. George)	1	10,064	0.6

Source: FDIC Summary of Deposits as of June 30, 2008

As represented above, The Village Bank holds the third largest portion of the market share at 14 percent. Table 3 does not depict any local funds that are held in institutions outside of the assessment area.

COMMUNITY CONTACT

Information obtained from community contacts is used to help assess the credit and community development needs of an assessment area. In conjunction with this evaluation, examiners reviewed recent community contacts conducted by the FDIC. An interview was conducted with a non-profit organization within the bank's assessment area. The information gathered by this contact revealed that there is a strong ongoing need for affordable housing, including multi-family housing as well as single family residences and small business loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Five performance criteria are evaluated to determine the bank's CRA performance and assigned rating. The criteria focus on the bank's lending activity within its designated assessment area. Each of the five criteria is discussed on the following pages and for this evaluation includes:

- **The bank's quarterly ANLTD ratio;**
- **Record of lending within its assessment area;**
- **Record of lending to businesses of different sizes;**
- **Geographic distribution of lending; and**
- **Responses to any CRA-related complaints.**

The CRA evaluation of the bank's lending performance was based, in part, upon the review of one loan category. Commercial purpose loans originated or renewed between April 30, 2008, and October 30, 2008, were reviewed. This loan type was selected for review as it represents the institution's primary business focus, and is the largest dollar volume of loans originated. A sample of this loan type consisting of 30 loans totaling \$2.4 million was used to determine bank performance in lending to businesses of different revenue sizes. The bank originates minimal amounts of residential real estate, consumer installment, or agriculture loans, so therefore, these loan types were not analyzed in this evaluation.

Loan-to-Deposit Ratio

The bank's quarterly ANLTD ratio is reasonable given the bank's size, business focus, financial condition, competitive forces, and assessment area credit needs. The ANLTD ratio measures the relationship of funds deposited in the bank to funds loaned out, and the extent to which the bank utilizes its deposit resources to extend credit. The ANLTD ratio based on 20 quarters since the bank's previous CRA Evaluation on November 1, 2003, is approximately 78 percent. The ratio ranged from a quarter-end low of 69 percent on March 31, 2006, to a quarter-end high of 99 percent on June 30, 2008.

For comparison purposes, a bank's ANLTD ratio is compared to the ratios of other independent financial institutions within the assessment area. Two other financial institutions headquartered within the assessment area were selected for this comparison. These banks and their corresponding ANLTD ratio and total assets are detailed in Table 4.

The bank's ANLTD ratio is similar to the institutions used for comparison.

Table 4 – Financial Institutions Located Inside the Assessment Area			
Financial Institution	Location	Average LTD Ratio (%)	Total Assets (in 000s)
The Village Bank	St. George	78	266,532
Similarly situated Bank 1	St. George	97	244,037
Similarly situated Bank 2	St. George	65	20,045

Source: CALL REPORT as of June 30, 2008

Lending in Assessment Area

This performance criterion measures the volume of loans originated within the bank's designated assessment area relative to total lending activities and is an indicator of the level of service within the assessment area. Between April 30, 2008, and October 30, 2008, the bank originated 103 commercial loans totaling \$25.3 million. Examiners determined that the bank originated a substantial majority of commercial loans within its assessment area. Table 5 depicts that the bank originated 72 percent of the number and 71 percent of the dollar volume of commercial loans to borrowers located within the assessment area. This data confirms that the bank has committed to extending credit to borrowers within its designated assessment area.

Table 5 – Distribution of Total Sampled Loans Inside and Outside the Assessment Area										
Loan Type	Number of Loans					Dollar Volume of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total \$(000)
	#	%	#	%		\$(000)	%	\$(000)	%	
Commercial (Small Business)	74	72	29	28	103	17,933	71	7,446	29	25,379

Source: Bank provided data

Lending to Businesses of Different Sizes

A small business loan is defined as a loan to a business with an original amount or commitment of \$1 million or less, while a small business is defined as a business with gross annual revenues of \$1 million or less. The distribution of the bank's small business loans reflects a reasonable penetration among businesses of different revenue sizes.

Table 6 shows the distribution of the sample of 30 small business loans originated in the assessment area in the most recent 6 months by gross annual revenues of the borrowing entities. The distribution of small business loans by number and dollar volume shows that 86.7 percent of the number and 59.9 percent of the dollar amount of the sampled commercial purpose loans were extended to businesses that had revenues of less than or equal to \$1 million. This indicates that the bank's commercial lending is focusing on the credit needs of small businesses. Of the

sampled loans, 33.3 percent of the number and 32.0 percent of the dollar were extended to businesses reporting revenue less than \$100 thousand, further indicating that the bank lends to the smallest category of businesses in the area. For comparison purposes, D&B data for the year 2007 details the gross revenues of businesses located in the area. Of the businesses that reported gross annual revenues, 94.9 percent of the number reported revenues under \$1 million, and only 5.1 percent reported revenues over \$1 million. The bank's lending pattern is similar to D&B data and reflects favorably on the institution's CRA performance.

Table 6 – Distribution of Small Business Loans by Gross Annual Revenues of the Business					
Gross Annual Revenue	% of Total Number of Businesses *	Sampled Commercial Loans			
		Number	% of #	Dollar Amount (000s)	% of \$
Less than \$100,000	Category-Specific Data not Available	10	33.3	766	32.0
\$100,000 to \$250,000		3	10.0	148	6.2
\$250,001 to \$500,000		6	20.0	299	12.5
\$500,001 to \$1,000,000		7	23.3	220	9.2
Under \$1,000,000	94.9	26	86.7	1,433	59.9
Over \$1,000,000	5.1	4	13.3	961	40.1
TOTALS:	100.0	30	100.0	2,394	100.0

Source: * June 2007 D&B

Geographic Distribution of Loans

A review of the geographic distribution of loans is performed to determine the distribution of the originated loans among low-, moderate-, middle-, and upper-income geographies within a bank's assessment area.

The bank's geographic distribution of commercial loans is reasonable. Loans originated between April 30, 2008, and October 30, 2008, were reviewed. Geocoding of the 103 loans determined that 74 loans were extended in the assessment area. Table 7 provides the geographic distribution of these commercial loans. The table also includes the percent of businesses located within the assessment area geographies according to D&B. The bank's performance exceeds D&B for the number of businesses located in the moderate-income areas with 14.8 percent of the number and 24 percent of the dollar of reviewed loans to businesses located in these income geographies. As described previously, there are no low-income CTs in the assessment area and the majority of the area's CTs are middle-income. The bank's percentage of lending in the moderate income areas is reasonable when compared against D&B data for the number of businesses within the moderate CTs.

Table 7 – Distribution of 2008 Small Business Loans by Income Category of the Census Tract

Income Level	D&B Percent of Total Businesses	Sampled Commercial Loans			
		Number	% of #	Dollar Amount (000s)	% of \$
Low	0.0	0	0.0	0	0.0
Moderate	10.6	11	14.8	4,312	24.1
Middle	73.4	46	62.2	6,335	35.3
Upper	16.0	17	23.0	7,285	40.6
TOTALS	100.0	74	100.0	17,932	100.0

Source: 2007 D&B

Response to Complaints

The bank has not received any CRA-related complaints since the previous CRA Performance Evaluation.

Fair Lending or Other Illegal Credit Practices Review

In addition, no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.